

INSTITUTE OF CURRENT WORLD AFFAIRS

JEF-15

150 Soi 20 Sukhumvit Road
Bangkok 11, Thailand
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Conversations with Economists -- Part Two

Mr. Richard H. Nolte
Institute of Current World Affairs
535 Fifth Avenue
New York NY 10017

Dear Mr. Nolte:

In my last letter I left off considering constraints on Thai development, and the unanswered question of units of measure. Leaving that question unsettled, we can still look at what people are actually doing about Thai development, and we can compare what they are doing with what they say is important, and with what others say is important. Hence I asked my economists what means they saw being pushed for Thai development; I reproduce the answers below, matching where I can specific means against specific development issues. My overall conclusion is that on many issues, it is readily admitted that there are no answers; on others, I was given answers, but the suggested solutions varied from one economist to the next. In general, the solutions show a particular bias against certain approaches which have worked elsewhere and which would have favorable impact in enhancing democracy and egalitarianism in Thai society, this despite a superficial commitment to democratization and increasing equality.

ECONOMIST	DEVELOPMENT ISSUE	MEANS
A.	1. inflation	1. export taxes, price controls*
	2. short-run urban unemployment	2. expand economy (deficit financing)
	3. income distribution	3. develop poorer regions
	4. agricultural modern- ization	4. cooperatives; credit; extension of new technology
	5. educational system	5. increase budget appropriations (*says that since it is imported in- flation, only solution is currency revaluation which gov't is unwilling to do, for unexplained reasons)
B.	1. increase agricultural output	1. technical assistance, experts, fellowships, in-service training for officials, capi- tal investment, more relevant local educational system
	2. population control	2. (none specified)

Jeffrey Race is an Institute Fellow studying how the institutions of the past influence people's behavior toward one another today. His current area of interest is Southeast Asia.

ECONOMIST	DEVELOPMENT ISSUE	MEANS
C.	<ol style="list-style-type: none"> 1. rural social and economic development 2. law and order 3. implant democracy 4. reform bureaucracy 	<ol style="list-style-type: none"> 1. trans. and commo infrastructure; provincial universities; rural industry (mining, smelting) 2. more police* 3. \$2.5 million budget for student mobile teams 4. (none specified) (* not C's own view; he links increased crime with inflation)
(Economist D is omitted since time did not permit getting answers to this part)		
E.	<ol style="list-style-type: none"> 1. inflation 2. land reform 3. unemployment 4. housing 5. reform of local gov't 	<ol style="list-style-type: none"> 1. reduce import duties, control gov't spending and money supply (but since it is imported inflation, "don't know what to do") 2. land consolidation act (now passed) and land reform act (now under consideration) 3. "no answer yet" -- no clear policy 4. "aggressive" public housing program 5. "Did I say that? Remove it from my list."
F.	<ol style="list-style-type: none"> 1. economic stability 1a. increase income of ranking members of gov't 2. modernize national infrastructure 3. modernize agriculture 4. population control 5. regional economic imbalance 6. income distribution 	<ol style="list-style-type: none"> 1. keep expenditures in check; retard growth 1a. ensure that framework within which private sector operates is favorable to high profits, e.g.: favorable tax system; high tariffs; low wages; rice export tax; no laws against conspiracy to fix prices or restrain trade; commercial law that requires little disclosure about public companies 2. welcome foreign private investment; listen to foreign experts and advisors 3. spend more money; expand Ministry of Agriculture 4. no clear policy; reluctance to push pop. policies aggressively 5. "no one knows" -- possibly location incentives for private industry 6. "the most murky of all"

Two features strike me about this set of responses. First is the clear tendency to steer clear of institutional reforms of all types. Thus, only two mentioned institutional reform as an issue for discussion or action, and not one mentioned it as a means to enhance the achievement of any of the objectives noted. This is simply remarkable in view of the near-unanimous agreement that institutional blockages are a principal hindrance to Thai development -- and one which would cost little in real resources to overcome. (The means for making public and private institutions work better are fairly well known, if one asks the right people.)

I would like also to draw attention to another remarkable feature of the responses, which is that the people at the bottom simply drop from view, except as the ultimate beneficiaries -- and even this reservation is a doubtful one, knowing what we know now about the priority of income redistribution in the minds of Thai economic planners. The most favored instruments of economic policy are the standard economic tools of capital investment, budgets, pricing policies, sectoral allocations and subsidies. To the extent attention is focused on people at all, it is hardly on those at the bottom: university education, vocational education (i.e., for those who already have four years in school), fellowships and training abroad for government officials. The few comments related directly to those at the bottom are C's earlier comment on the irrelevance of rural education (hinting perhaps at a need for something to improve the situation of those with nothing at all), and A's mention of cooperatives. I leave to a later newsletter to explain why cooperatives, as presently structured in Thailand, are not very helpful in this regard.

What is plainly lacking is such efforts as: a crash literacy program (about 20% illiteracy, I don't have the latest figures); expansion of basic education; intensive efforts to get new technology into the hands of poor farmers, or organization of farmers in ways that would alter the individual burden of farming risks. What is essentially being done is to increase the resources devoted to elites in order that they may (presumably) do more for those beneath them -- this rather than devoting the resources to those at the bottom directly, or altering the institutional structure to change the life situations of those at the bottom.

I will leave to a future letter to discuss details of what I have in mind. Let me just say now that there are real alternatives to Thailand's version of the "trickle down" theory. Briefly, we might say that you can focus either on the "transmission belts" for new technologies, or on the users. In the former case, you pile up more privileges, more foreign degrees, more vehicles and office equipment on officials; in the latter, you take steps to enhance the ability of the farmer to search on his own for, to adopt, and to manage new technologies. I think there is a lot of evidence that the latter approach produces powerful benefits, and this would especially be the case in a country like Thailand where the bureaucracy functions poorly despite its level of educational attainment and physical endowment. (I discussed the reasons for this back in JEF-1.) That the former approach has been chosen is certainly no coincidence; it agrees well with the observations of some scholars that the Thai bureaucracy is operated on its own behalf, not on behalf of the public.

This is not to deny that there have been changes in the past year, for there certainly have been, particularly in the position of the agricultural sector: abolition of the fertilizer monopoly, reduction of the rice export tax (basically a tax on the farmers), and an increase in the agricultural budget. But all of these are within the conventional wisdom, adopting the measures noted above, while leaving untouched the institutional structure and the power relations between various groups. It is basically a conservative set of prescriptions for Thai development, largely the "same old thing," and there is to me at least an overwhelming impression of every agency doing its own thing. I see no creative or urgent response to the likelihood that Thailand may have no exportable rice surplus in less than a decade (rice is now the biggest foreign exchange earner), and little awareness of the historical factors which have made Thailand's recent growth so quick and easy: military spending, relative underpopulation, and the political passivity of the farmers. Thailand may be running out of time, as I tried to sug-

gest in my last letter, and the only explanation I can find for the relaxed attitude of Thailand's leaders is that no matter what happens, the people on top will continue to live very comfortably.

Recently farmer's groups have been conducting rather raucous demonstrations here in Bangkok, in particular accusing the deputy prime minister, Dr. Prakob Hutasingh, of insincerity for failing to deal with the problems of poor farmers. Dr. Prakob is highly respected, and I'm sure he is quite upset by these accusations, which he surely considers baseless. But we can now perhaps understand the farmers' perspective: they know that as things are going, nothing much is going to happen to help them. They fail to understand that it is not Dr. Prakob's insincerity. We know better: Dr. Prakob in a sense is just a front man, and the people who are making Thailand's economic future find no more prominent or bounteous place in it for those presently at the bottom.

I might be less insistent on the limitations of "trickle down" if it had been successful in Thailand, but so far this is conspicuously not the case. We would indeed hardly expect it to be, in view of the mechanisms I described in earlier letters for transferring wealth from poor to rich in this country. This is the significance of my next question to my economists, namely, what evidence is there of changes in income distribution and, in particular, what studies have been done on this subject?

Let me precede my replies with the observation that, to my knowledge, there have been no official studies of income distribution per se, though there have been efforts by individuals acting on their own to interpret data collected by the government for other purposes. I have in mind here two efforts, one by Udom Kerdpibule of Kasetsart University, the other by William McCleary of the Rockefeller Foundation, to analyze the findings of the household expenditure surveys of 1962/3 and 1968/9. Unfortunately, for income distribution analysis, the studies did not use consistent definitions, so the findings, based on poor data, are controversial within the scholarly community here. In essence, they show a tendency to a widening urban/rural gap, and an increase in income inequality in some regions of the country. Udom also notes that within the urban sector there has been some trend to greater equality. It may be that better data would show different trends, but until the critics come forth with their own findings (I have yet to see any), we have no reason to believe otherwise than Udom and McCleary suggest.

Turning to the responses of our economists, it develops that only three of the six are aware of these studies at all, and of the fact that inequality appears to be increasing, at least in certain regions and between sectors. One economist who is well conversant with these studies specifically mentioned that not many people are conscious of them and their implication; he further observed that there is no evidence of program impact on income distribution. (However, McCleary's study shows the greatest increase in rural inequality in the Northeast, the site of major road-building activity in the last decade. One possible inference is thus that the government roadbuilding program -- a counterinsurgency measure -- has led to more rural inequality. We need more data to be sure of this, though.)

The three economists who were not aware of these studies seemed either to have no idea of trends in income distribution, or to believe that it is becoming more equal. They cited a number of factors which led them to this conclusion: formation of labor unions, the recent increase in the rice price (both from the increased world price and from the reduction in the rice export tax), and, in general, a greater willingness by the government since October 15, 1973, to listen to what people have

to say. There is no question that the formation of unions has had a marked effect on employer/employee relations -- the appearance of strikes as a bargaining tool in Thailand is just one indication -- and money wages, at least for those in the lower earnings brackets, have increased considerably. It may be that this has simply kept up with the rapid inflation, however. There is similarly no question that the rise in paddy prices has had a dramatic impact in the countryside -- one symptom of the rapidity of the shift has been the urgent need to print enormous quantities of small bills to accommodate the increasing extent of cash transactions outside the cities (where the use of cash is smaller, checks and savings accounts being the media of exchange and savings). It is not clear at all, however, that these shifts, dramatic as they are, are going to help the people at the bottom -- and the odds are that they won't. Labor organization will certainly protect those who are organized; a corollary will probably be unemployment for those whose marginal product, as the economists say, does not come up to the minimum wage which the unions have been vigorously pushing to increase. Increased incomes in the countryside may accrue to those best able to take advantage of the cash market -- and this will not be the poorest. The willingness to listen to demands will probably mean listening to the demands of those who can get organized most effectively. The outcome of all of these processes, at least for capitalist countries (as Kuznets' data suggest) will be a gradual redistribution of income from those at the very top to those around the middle of the scale. Those at the bottom will probably suffer an actual decline in living standards.

All considered then, we may conclude that there is little official interest in income distribution (hence no studies); what evidence there is of trends is bad news but not universally known (another indication of lack of interest); in terms of priorities of economic planners, the subject of income distribution is either absent or near the bottom; and the actual measures they are pushing, so far as I can see at this point, show little promise of doing anything for the very poor. Hence their disillusion is comprehensible, despite the fine talk of political leaders here in Bangkok. Even so, of course, we must concede the fact that the very poor here are enormously better off than in Java, parts of India, or Bangladesh. But what of ten years from now? Or twenty?

Summing up the larger picture, I find a depressing lack of seriousness in the whole development effort, though there are some obvious bright spots. It seems to me that if you are serious about development, then you concentrate on the bottlenecks rather than having every bureaucracy just do more of the same. If you believe that national resources are precious treasures, then you manage them wisely, rather than (for example) fragmenting your agricultural research effort into so many little pieces that not much comes of it. Even those who believe they are being "progressive" in their analysis, for instance in talking about "human capital," seem to be talking about helping those who are already comfortable by Thai standards. In short, Thailand is being led toward a particular kind of future, dictated by bureaucrats, technocrats, capitalists and politicians, and benefitting these groups. At least, they are the ones who are squabbling, with the average man still on the sidelines.

Yet, would we expect it to be otherwise? I am comparing the current situation here with an ideal in my own mind. It may be that progress in Thailand in 1974 is more enlightened, more humane, and less venal than in other countries of the world today, or in previous generations. I will leave this judgment to others more worldly-wise and more widely travelled than myself; and I will continue to use as my standard the best that we are capable of becoming.

Within the bureaucrat/technocrat/capitalist/politician orbit there are choices to be made, and our economists were good enough to suggest what some of them may be. That is to say, even within the conventional wisdom, there are still many futures for Thailand. I was interested in what they may be and so asked three of our informants to speculate a bit.

My first crystal-ball gazer started by identifying the past modernization/development strategy of Thailand as a city-oriented, import substitution, laissez faire industrialization model. He sees Thailand's leaders moving away from this in three respects: the future strategy will become more focussed on the countryside, it will concentrate on agricultural exports, and it will of course be agricultural rather than industrial. One "package" of policies which he envisages would consist of a reduction in the rice export tax and an increase in government expenditure on the rural sector. The first measure would lead directly to higher farm incomes and at the same time change the slope of the curve relating the prices of agricultural inputs and corresponding increments to output. This would make profitable a higher level of inputs to paddy production and, in general, make this a more modern enterprise. The second measure would consist of increased expenditures on rural health and education, making it more attractive for people to stay on their farms to support the agricultural export strategy. He notes, by the way, that this approach was not tried before for a combination of reasons: first, doctrine had it that modernization was a single lane to the future marked "industrialization," second, no one thought there was a future in agriculture; third, there was no "problem" in agriculture -- there was enough land, there was an export surplus, and the farmers (under the restrictions imposed by the old regime) were quiet enough. All these elements are changing now.

A second possibility, essentially a way to put off for a while having to think too much about hard decisions on sectoral allocations, would be to get aggressive on family planning. The government is not pushing this hard now, with modest goals and modest budgets, but an enlarged effort here would have enormous consequences for the quality of life a generation hence, and for demands on the governmental budget at that time.

A third possibility, though an unlikely one, is that the government would abandon the fourth pillar of the previous development strategy -- laissez faire -- and opt for a greater government role in investment. I say unlikely because the last such attempt in Thailand was aborted (this being Pridi's master national plan in the mid-30's, following the overthrow of the absolute monarchy in 1932). One general here was also kind enough to share his view with the press a few days back, that if the socialists receive even one-fifth of the seats in the assembly to be elected in January, there will be a coup d'etat. . . .

My second economist agreed with the likelihood of a shift toward agriculture and a downplaying of industrialization. He suggests also that there is a widespread consensus on laissez-faire development, and that international lending agencies are quite happy with this approach. As evidence of the shift already being underway, he points to the latest agricultural budget: in recent years agriculture has been going down in real terms, but the current budget reverses this trend. He also points to the recently passed land consolidation and seed certification laws, and the draft land reform law, as evidence of movement. The old regime of the generals, for reasons which can well be imagined, was not very interested in agriculture, but with the new leadership (such as it is), the technocrat faction has been able to bring these measures up in the assembly, where they have been easily passed.

I have left until last the views of our old friend economist A, for he again has the most provocative views. Like his colleagues he also sees a tendency to focus increasing attention on agriculture, but he feels this poses some problems. Technological change in agriculture is currently producing pressures for land consolidation, and this might come about in three ways, he feels. The first possibility is collectivization communist style, but this is obviously repugnant to the current leadership and no doubt to most of the independent-spirited farmers as well. The second possibility is large-scale commercial agriculture, and in fact there is much movement in this direction. This tendency is undesirable, at least to some, because you end up with some rich farmers, lots of agricultural laborers, and more economic inequality than under the third possibility: cooperatives. This latter is the favored alternative because it combines the virtues of large-scale production with the advantages of better income distribution and more independence and self-reliance.

For rice production this is not really at issue, because the evidence is clear that rice small holdings are successful and can be made more so. (The 1963 Census of Agriculture shows a perfect inverse relationship between production of non-glutinous transplanted rice and size of holding: from 29.5 buckets/rai for holdings from 2 to 5.9 rai, to 19.2 buckets/rai for holdings over 140 rai.) However, for other crops such as soybeans, maize, sugar cane, tobacco or cotton, the choices, leaving collectivization aside, appear to be commercialization or cooperatives. In order to avoid commercialization and possibly a British-style enclosure movement, responsible officials see a crucial nexus between technology transfer, long-term credit, land ownership (ending the trend to alienation), and farmer organization. The latter is perhaps critical, but for lots of reasons cooperatives have not been very successful. They are run by government officials and tend to be a drain on farmers, not a service. Essentially Bangkok has wanted to get the farmers organized, but on Bangkok's terms. This has seldom been the way the farmer wants it.

Looking to the broader picture, economist A suggests that the future poses a choice for Thailand's leaders -- a choice which has not been made and one which may never be made, given the relaxed attitudes toward the future among economic planners which I have described in previous pages. "Does Thailand want to move toward a rural paradise?" economist A asks. This would mean a shift of resources to the countryside, would use Thailand's comparative advantage in food production, and would be the right choice if there will in fact be a long-run world food shortage. Or does Thailand want to become a "modern, industrialized, urban society?"

If Thailand opts for the "rural paradise" -- essentially a capitalist variant of Mao's vision of China -- it will require a benign political environment and a very strong population program; otherwise per capita GNP will simply stagnate. Such a strategy would produce an acceptable balance of payments and quite satisfactory distribution of income. "The Thai might never be rich," says A, "but they would be happy."

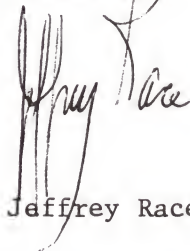
The second alternative would be a very strong inflation-based industrialization program (perhaps on the model of Korea). Thailand would sell its industrial products to pay for its heavy capital imports, and would keep devaluing the currency to maintain competitiveness. The agricultural sector would carry fewer people but would have higher output per person, "at least enough to feed the monster" Thailand would have created. Again, such a program could pay for itself in balance of payments terms, though income distribution would be much less favorable, and more people would live in far less wholesome environments.

If this were all A had to say, we could rejoice that Thailand has two such promising alternatives, either of which would be successful in gross economic terms. Unfortunately, he goes on to add that precisely what won't work is a continuation of present policies, pursuing industrialization with the exports from a primitive agriculture. For one thing, if present trends continue, Thailand will shortly have no rice to export. Also, now that the political screws are off, the farmers show not the slightest interest in tolerating the old regime's policy of squeezing the countryside to support the cities and industrialization -- the almost weekly farmers' demonstrations in Bangkok clearly show that this policy is bankrupt.

So what were originally bright prospects turn out to be less so. The first course, the rural paradise, requires suppressing Thailand's military-industrial complex. A suggests that this is economically feasible but politically difficult. The second course, inflation-based industrialization, requires acceptance of continuous inflation (and perhaps a Korean-style authoritarian government). Such an inflation might be economically unacceptable, though the idea of an authoritarian government to keep the lid on fits well with Thailand's political history. The third course, doing more of the same, will probably become physically impossible in a few years.

Avoiding hard times in the future thus demands far-sighted and decisive leadership now. The current political campaign demonstrates that there is no shortage of candidates for the top jobs -- but will any of the current contenders want, or even see the need, to make the tough decisions the situation requires?

Sincerely,

A handwritten signature in dark ink, appearing to read "Jeffrey Race". The signature is stylized with a large, sweeping initial "J" and "R".

Jeffrey Race

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